

*Secure a
Better Tomorrow
with
RSA-1*



in·vest (in-vest') v. **-vest·ed,**
commit (money or capital) in or
invested their savings in stocks and
vote for future advantage or benefit
ergy in getting a good education.
chologically, as to a purpose.
invested in wh



How **RSA-1** Can Work for You

The RSA-1 program is a 457 Deferred Compensation Plan. RSA-1 allows you to defer a portion of your paycheck **BEFORE TAXES** into an account along with investment earnings.

By contributing pre-tax dollars you lower your taxable income and reduce the amount of taxes you pay. There is no minimum amount you must contribute. You may increase, decrease, or stop your contributions as often as your payroll officer allows.

RSA-1 is payroll deductible which makes saving easy. Remember, you should **ALWAYS** pay yourself first. On average, Social Security and your pension make up less than sixty percent of the total sources for retirement income. Hence, personal savings are very important to help maintain your standard of living when you retire.

*You can enroll in **RSA-1** anytime... so what are you waiting for?*

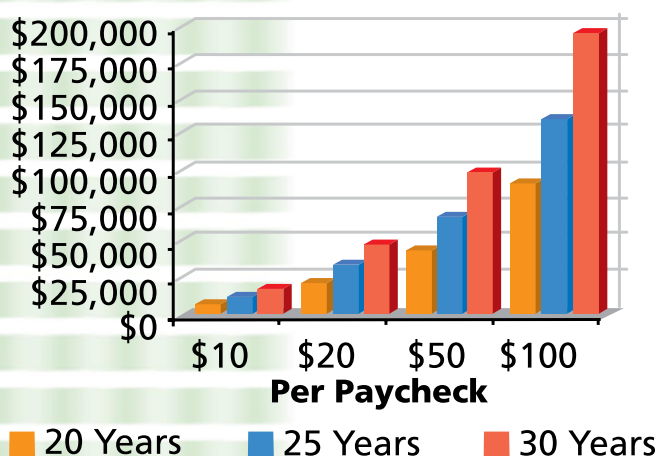
The Power of Compounding

Many retirees frequently say their biggest regret is they did not start saving earlier. By committing to a savings plan early, a person can contribute less but save more.

How does this work?

This financial phenomena is known as the *Power of Compounding*. As the years pass, the money you invest in the RSA-1 Deferred Compensation Plan will continue to earn **tax-free** monies. By reinvesting these monies, additional funds are earned, continuing this cycle year after year.

Account Growth



The following examples illustrate the power of compounding:*

Will started deferring \$25 a paycheck into his RSA-1 Deferred Compensation Plan account when he was 25 years old.

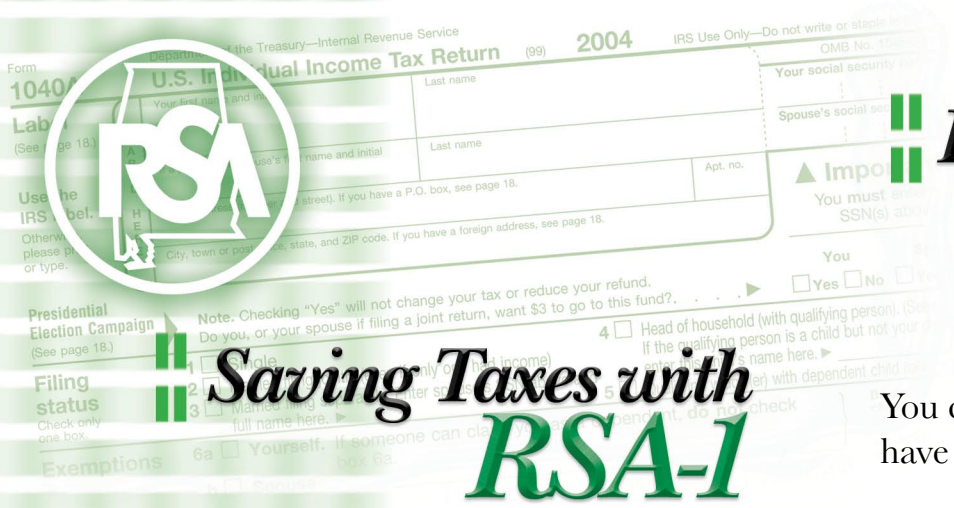
At age 55, Will's account balance will be \$48,963.

Katherine started deferring \$37.50 a paycheck into her RSA-1 Deferred Compensation Plan account when she was 35 years old.

At age 55, Katherine's account balance will be \$34,173.

Although both members deferred a total of \$18,000, by starting early, Will contributed a smaller amount each paycheck and still accumulated \$14,790 more than Katherine. This is the power of compounding.

* These examples assume a 6% rate of interest and are for illustrative purposes only. They are in no way indicative of the future performance of any of the investment options available through RSA-1.



Enrolling in **RSA-1** is Easy

Saving Taxes with **RSA-1**

The following is an example of how participation in **RSA-1** can help you reduce current taxes:

Assume:

- An employee earning **\$1,000 biweekly**
- Deferring **\$100 into RSA-1 biweekly**
- Filing as single with one withholding allowance.

1. Complete the **MEMBER RECORD** form and the **INVESTMENT OPTION ELECTION** form. Submit the completed forms to the **RSA-1 Deferred Compensation Plan** office.

2. Once the account is established, submit the **AUTHORIZATION TO DEFER COMPENSATION** form and take it to your **payroll officer**.

For more information about enrolling in RSA-1, please read the **Enrolling is Easy** insert in the middle of this packet.

	<i>With RSA-1</i>	<i>Without RSA-1</i>
Biweekly pay	\$1,000.00	\$1,000.00
RSA-1 Deferral	100.00	0.00
Less 5% Retirement	50.00	50.00
Federal Tax	79.00	94.00
State Tax	32.00	36.00
FICA	76.50	76.50
Take Home Pay	\$662.50	\$743.50

In this example, deferring \$100 only decreases your take-home pay by \$81 while saving you \$19 in taxes. (Based on 2006 tax table.)



Remember this about **RSA-1**

- ✓ There is no minimum amount to contribute.
- ✓ Your contributions are taken out before taxes which will reduce your taxable income.
- ✓ **RSA-1** contributions do not affect a member's regular pension from the RSA.
- ✓ There are **NO FEES** associated with **RSA-1**.



General Information



What is RSA-1?

RSA-1 is a deferred compensation plan sometimes referred to as a 457 plan because its laws are defined in that section of the Internal Revenue Code. RSA-1 is administered by the Secretary-Treasurer of the Teachers' and Employees' Retirement System under the supervision and direction of the PEIRAF Board of Control, which is composed of members of the investment committees of the Teachers' and Employees' Boards of Control.

You never pay any fees!

Unlike other funds, there are no administrative, membership, investment, transaction, sales or commission fees for participating in the RSA-1 Deferred Compensation Plan. All the money you defer and all investment earnings are placed into your account and invested by RSA-1.

Deferring part of your income equals tax savings

Under the RSA-1 Deferred Compensation Plan, a public employee may elect to defer receipt of a portion of his or her salary until a later determined date, usually at retirement or other termination of service. Because receipt of the income is deferred, the deferred income is **NOT** included in your federal or state of Alabama gross taxable income.

The deferred income is paid into RSA-1 and invested for your benefit. Investment earnings are accumulated in the

fund and like the deferred income, are not subject to federal or state of Alabama income taxation until distributed to the employee. Deferred income and the investment earnings are held in the participant's account for the exclusive benefit of the plan participants and their beneficiaries.

Keep your beneficiary current

It is very important to maintain current beneficiary designations. Federal tax laws dictate certain requirements for distributions of your RSA-1 account to your beneficiary(s) after your death. Review your beneficiary(s) designations if you prepare to terminate employment, retire, marry, divorce, experience the death of a family member, or experience an addition to your family. If you need to change your beneficiary or if your primary beneficiary dies, contact RSA-1 for a **CHANGE OF INFORMATION** form or download it from our Web site.

If you wish to have more than one primary or contingent beneficiary, complete the **MULTIPLE BENEFICIARY DESIGNATION** form and submit along with the **MEMBER RECORD** and **INVESTMENT OPTION ELECTION** forms to RSA-1. All of these forms are included in this packet.

RSA-1 needs your current home mailing address

Having your current home mailing address on file with RSA-1 is very important. Many important documents are mailed to each participant, including your account statements. Please report any change of address to RSA-1 in writing only, either by letter or **CHANGE OF INFORMATION** form.

Enrolling is Easy



Who is eligible to join RSA-1?

Any public official or employee of the state of Alabama or any political subdivision thereof is eligible to participate in the RSA-1 Deferred Compensation Plan, regardless of age or participation in the Retirement Systems of Alabama (RSA). Participation in RSA-1 is strictly voluntary.

How do I enroll?

You can enroll in RSA-1 at any time. To participate in RSA-1, an employee must complete the **MEMBER RECORD** form and the **INVESTMENT OPTION ELECTION** form, included in this packet, and submit the completed forms to the RSA-1 Deferred Compensation Plan office at the RSA to establish an account. Once an account is established, the employee initiates salary deferrals by filing an **AUTHORIZATION TO DEFER COMPENSATION** form, also included in this packet, with his or her payroll officer. You can only defer contributions to RSA-1 through payroll deductions. Do not send the **AUTHORIZATION TO DEFER COMPENSATION** form to RSA-1 or the RSA.

Easy to Make Deferrals

1.

Deferrals may be in any amount desired (for example, \$10, \$20, \$50, etc.) by the participant as long as the participant does not exceed the maximum deferral allowable.

2.

The amount of the participant's deferral may be increased, decreased or suspended as often as the participant wishes, subject only to employer payroll requirements.

*Statements will be mailed semi-annually in April and October.
To request your balance at anytime, please call or email RSA-1 at
rsa1info@rsa-al.gov.*

Note: Balances are **not** given out over the phone or through email. Once the request is received, a balance letter is sent to the address on file.

Investing in **RSA-1**



What are my options on investing my contributions?

RSA-1 funds are invested under the same authority and restrictions that govern investments made by the Teachers' and Employees' Retirement Systems. The RSA-1 Deferred Compensation Plan offers the option to invest in either fixed income investments, stocks, or a combination of both. The funds in both the RSA-1 fixed and stock investment options are not self-directed; rather they are invested as a pool. The RSA-1 fixed portfolio is invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper. The stock portfolio is invested in an S&P 500 Index Fund, which invests in the stock of America's 500 largest companies.

Earnings or losses are credited to each participant's account monthly and member accounts are valued monthly at market value. The RSA-1 staff can further explain these options to you, but cannot advise you regarding which particular option to elect. Statements are mailed semi-annually in April and October.

When it comes to risk and reward, stocks and bonds generally behave differently. When choosing between the stock and bond options, you should strive for an optimal blend of risk and reward - based on your age, years until retirement, and tolerance for risk. For instance, members approaching retirement might consider allocating more of their assets to bonds than to stocks because bonds tend to have a more predictable income stream than stocks. Generally, bonds offer a level of security that stocks do not. The tradeoff is that bonds traditionally provide more modest rates of return over the long term than stocks.

Historically, stocks have provided the highest returns over time, but stock prices fluctuate - sometimes dramatically, as evident in recent performance. Most financial experts say that the younger you are, the more you should emphasize stocks. The longer your investment horizon, the more time you have to ride out the inevitable ups and downs in the stock market. In fact, over periods of 20 years or more, stocks have historically provided positive returns.

How do I select my investment option?

New participants must complete the **INVESTMENT OPTION ELECTION** form in this packet and submit it with your **MEMBER RECORD** to the RSA-1 office to open an account.

Existing participants will be able to choose between a stock and a fixed income investment option every 365 days. The election will remain in effect until a subsequent eligible election is made, but it must remain in effect for 365 days. If you do not wish to change your investment option, the election will remain in effect until subsequently revoked. You may stop deferrals at any time, but the election will remain in effect if you subsequently resume deferrals.

Are my investment earnings taxed?

You do not pay current income taxes on your investment earnings. RSA-1 deferrals and earnings are only subject to taxes when they are withdrawn from RSA-1.

How much will my investments earn?

Your earnings are based on market conditions. For monthly total yields on investments, visit our Web site, or call the RSA.

Investing in RSA-1 continued (over)

Investing in RSA-1 *(continued)*

Are there any limits on what I can contribute to RSA-1?

The maximum amount you may defer per year is 100% of your includable compensation reduced by other tax-deferred retirement contributions and pre-tax salary reductions, but not more than the following annual contribution maximums:

Annual Contribution Maximums

Year	Participants Under Age 50	Participants Age 50 and Over
2007	15,500	20,500

There is **no minimum** amount you may defer. Deferrals to RSA-1 do not affect retirement benefits because retirement benefits are calculated on your gross salary.

If you are making deferrals to another Section 457 plan, the annual contribution maximum applies to all 457 plans. For example, if you are deferring \$10,000 in 2007 to RSA-1,

you are limited to a total of \$5,500 (or \$10,500 age 50 and over) with any other 457 plan in that calendar year. If you are contributing to a 403(b) or a 401(k), the limits to those plans will not be affected by deferrals to the RSA-1 Deferred Compensation Plan.

Can I catch-up contributions for years I did not participate?

If you did not defer the maximum deferral amount in the years beginning with 1986 and were eligible to

participate, you may “catch-up” unused eligible amounts for one to three years if you are within three years of normal retirement age and are eligible for an unreduced pension.

The following limits apply:

Year	Catch-Up Maximum
2007	31,000

Normal retirement age is age 60 with at least 10 years of service credit or an age you may retire and receive immediate unreduced benefits under your pension plan (i.e., 25 or 30 years). This age may be earlier than 60 but not later than 70-1/2. The participant may make catch-up deferrals during the three calendar years prior to retirement or the three years prior to the year the participant becomes eligible to retire.

The following rules apply to the catch-up provision:

- 1. The catch-up provision cannot be used more than once, whether or not the participant utilizes the maximum catch-up deferrals in all three of the catch-up years.**
- 2. The designated catch-up period cannot be changed once the participant begins catch-up deferrals.**
- 3. The participant does not have to retire on the date indicated; however, the catch-up period based on the date cannot be changed.**
- 4. The member may not catch-up during the calendar year in which he or she actually retires.**
- 5. Catch-up deferrals must be payroll deducted.**

RSA-1 must approve the catch-up application before catch-up deferrals can be made.



Distribution of Your **RSA-1** Funds



When can I withdraw my funds from RSA-1?

RSA-1 is not a savings account in which participants make periodic withdrawals. Rather, it is a retirement account that is available only after the participant has either retired or otherwise terminated employment.

A participant may not withdraw his account unless he meets **one** of the following conditions:

- 1. Separation from service through retirement or termination from employment**
- 2. The attainment of age 70-1/2**
- 3. Unforeseeable Emergency (contact RSA-1)**
- 4. Cash-out provision for small account balances (Contact RSA-1)**

RSA-1 funds cannot be assigned or alienated.

Can I use my RSA-1 funds to purchase service credit with the ERS or TRS?

You may use your RSA-1 funds to purchase permissive service credit with a governmental defined benefit plan such as ERS and TRS. If you wish to purchase permissive service credit with the ERS or TRS, please contact the ERS or the TRS and RSA-1 for information on how to make this purchase.

Can I withdraw my money if there is an emergency?

There are conditions that permit the member to withdraw his/her account for hardships. Hardships that do not fall into the unforeseeable category do not qualify for withdrawal. Withdrawals will not be allowed for buying a home, college expenses or other similar purposes. Please contact RSA-1 to see if your emergency will allow for distribution of your RSA-1 funds.

How are distributions of my funds made?

Distributions must be at least annually in frequency. No interest will be paid on the monthly interest posting date after the account has been distributed in full. There is no penalty for early distribution from a Section 457 plan.

At the time of separation from service, the participant has the following five distribution options:

Option 1: Receive a lump-sum payment consisting of the balance in the account.

If you choose to receive distribution of your funds in a lump-sum, the entire amount must be distributed to you no later than April 1 of the calendar year following the calendar year in which you either attain age 70-1/2 or retire, whichever is later. The IRS requires RSA-1 to withhold 20% of the lump-sum distribution for federal income tax.

Option 2: Receive a partial distribution followed by equal monthly payments.

If you choose to receive distribution of your funds in equal monthly payments, the distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70-1/2 or retire, whichever is later. Checks are mailed the last business day of the month.

Option 3: Receive a partial distribution and leave your balance in your RSA-1 account until you have reached age 70 1/2.

If you wait to begin distribution until the calendar year following the calendar year in which you attain age 70-1/2 (but no later than April 1 of that year), the required distribution for two years must be paid that same calendar year:

1. One distribution by April 1 for the 70-1/2 year, and
2. One distribution by December 31 for the year following the 70-1/2 year.

Option 4: Receive a monthly disbursement, provided the monthly distributions comply with the limits imposed by Section 457 of the Internal Revenue Code.

Distribution of Your RSA-1 Funds continued (over)

Distribution of Your RSA-1 Funds (continued)

Option 5: Delay distribution of funds until a future date at which time any one of the above choices may be made.

Current IRS regulations require that distributions begin not later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later.

Beneficiary Payments

Contact RSA-1 for distribution questions about funds to the beneficiary(s).

Can I roll over my RSA-1 funds to another plan?

Participants may roll over their RSA-1 funds to a Section 401(k), 403(b), 457 plan or a Traditional IRA if they are eligible to take a distribution. RSA-1 allows transfers to other plans.

Does RSA-1 accept rollovers?

RSA-1 accepts rollovers from member's RSA DROP accounts once the member has terminated employment. Members must establish an RSA-1 account prior to the rollover.

Beginning January 1, 2007, RSA-1 will accept trustee-to-trustee transfers from other Section 457 plans. An RSA-1 account must be established prior to the transfer. Funds transferred from other Section 457 accounts must never have been from any source other than 457(b).

May I defer my sick and annual leave?

If you are eligible to receive payment for sick and annual leave

at termination of employment, you may defer up to the maximum limit in the year you terminate employment. For example, if you retire in 2007 and receive payment for sick and annual leave, you can defer up to the limit of \$15,500 (\$20,500 for age 50 and older) less any deferral you have already made to RSA-1 within that same calendar year.

If you have not made a deferral to RSA-1 in the calendar year of termination of employment, you may defer the full \$15,500 (\$20,500) for 2007. If you retire on January 1 of a year, you may defer up to the limit of the new calendar year. Deferring sick and annual leave payments to your RSA-1 account instead of receiving it in a lump-sum payment can save you 28% in taxes.

When I withdraw my funds, how are they taxed?

Distributions of amounts previously deferred as well as interest earned are subject to federal income tax withholding. Amounts deferred **after January 1, 1997**, as well as any interest earned, will be subject to state of Alabama income tax upon distribution.

At the time the participant applies for RSA-1 benefits, the participant will complete a form W-4P and A-4 Withholding Certificate. The participant may submit a new form W-4P or A-4 Withholding Certificate at any time. Distributions are subject to the withholding rules applicable to qualified plans. For lump-sum payments, federal regulations require a flat 20% withholding (this will also apply to withdrawals for unforeseeable emergencies). For periodic payments, withholding will be based on the participant's marital status and the number of withholding allowances claimed. If a Withholding Certificate is not filed, withholding will be based on single filing status with no allowances.

Deferred income and investment earnings distributed from RSA-1 will be taxed to the employee or beneficiary as ordinary income in the year of distribution. Payments to RSA-1 recipients and to beneficiaries are reported on a form 1099R in the year of distribution. There is no penalty for early distribution from a Section 457 Deferred Compensation Plan such as RSA-1 regardless of the recipient's age at the time of distribution.

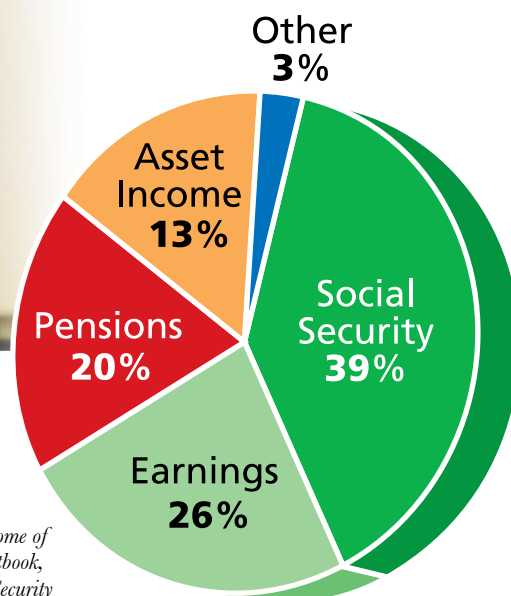




Experts say that you will need between 70 - 80% of your pre-retirement income to maintain the standard of living you enjoy today.

Where will this money come from?

Sources of Retirement Income



Source: Income of the Aged Chartbook, 2004 Social Security Administration

|| The Recipe to Save

I. *Make it easy to join.*

RSA-1 is simple to join and to make changes.

II. *Take the contributions directly from your paycheck.*

If you don't see it, you don't spend it.

RSA-1 is payroll deductible.

III. *Make it easy to keep saving.*

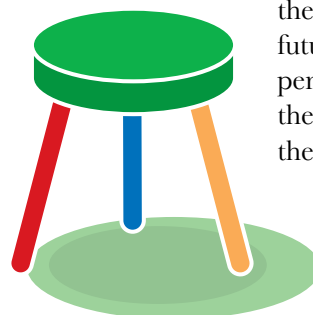
RSA-1 allows changes to contribution amounts anytime. These changes are initiated through your payroll office.

IV. *Help participants resist temptation.*

RSA-1 does this by law - you cannot withdraw your money on impulse and jeopardize your future benefits.

|| Retirement & the Three-Legged Stool

We encourage you to think of your retirement in terms of a three-legged stool. Each leg of the stool represents a source of your retirement income. The first leg of your stool is your retirement benefit from your employer(s). Your pension benefit is typically calculated based on your years of service, a benefit factor, and your ending salary. The second leg of your stool is your Social Security benefit. You can begin receiving a reduced benefit from Social Security as early as age 62. The third leg of your stool is some type of a personal savings plan. Many retirees find that, with the growing concern over the future of Social Security, a personal savings program is the best way to take control of their future.



*Let the **RSA-1** Deferred Compensation Plan be the third leg of your stool.*

Why Save?

\$ Experts estimate you'll need around 70 to 80% of your final income at retirement.

\$ If you live to age 65, you could expect to live 20 more years. Most people spend 1/3 of their lives in retirement.

\$ Inflation reduces your purchasing power; a movie ticket costing \$7 today might cost \$14 in 20 years if you factor in inflation!

\$ While some expenses will decrease when you retire, others such as medical expenses could increase.

RSA-1

Contact Information

Phone

1-877-517-0020
334-517-7000

Email

rsa1info@rsa-al.gov

When sending an e-mail, please include your full name, employer, home mailing address and daytime phone number.

Fax

(334) **517-7001**
or
(877) **517-0021**

Mailing Address

The RSA-1 Deferred Compensation Plan
P.O. Box 302150
Montgomery, AL 36130-2150

Please provide your full name and address on all faxes and letters.

Web site

www.rsa-al.gov

Street Address

201 South Union Street
Montgomery, Alabama

Hours

8:00 a.m. - 5:00 p.m.
Monday - Friday



The information in this packet is based on Section 457 of the Internal Revenue Code of the United States and is authorized by §36-27A-1, et. seq., Code of Alabama 1975. This packet is not intended as a substitute for the Internal Revenue Code nor will its interpretation prevail should a conflict arise between its content and Section 457 of the Internal Revenue Code. Do not rely solely upon the information provided in this packet to make any decision regarding enrollment in RSA-1, but contact RSA-1 directly with any questions you may have.